

***City Of Carson  
Carson, Iowa***

***Independent Auditors' Reports***

**Basic Financial Statements, Required Supplemental Information, Other  
Supplemental Information and Schedule of Findings**

***Year Ended June 30, 2004***

***Prepared By:***

***Lanphier, Vandenberg & Kolasinski  
A Professional Corporation  
Certified Public Accountants  
10842 John Galt Boulevard  
Omaha, Nebraska 68137***

## CONTENTS

	<u>Page</u>
Officials	3
Independent Auditors' Report	4 & 5
Management's Discussion and Analysis	6 - 12
Basic Financial Statements	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A      13
Governmental Fund Financial Statement	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances	B      14
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances	C      15
Notes to Financial Statements	16 -24
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and	
Changes in Balances – Budget and Actual (Cash Basis)	
All Governmental Funds and Proprietary Funds	25
Note to Required Supplementary Information – Budgetary Reporting	26
Other Supplementary Information:	<u>Schedule</u>
Statement of Cash Receipts, Disbursements and Changes	
In Cash Balances – Nonmajor Governmental Funds	1      27
Schedule of Indebtedness	2      28
Bond and Note Maturities	3      29
Schedule of Receipts by Source and Disbursements Function –	
All Governmental Funds	4      30
Independent Auditor's Report on Compliance and on Internal	
Control over Financial Reporting	31-32
Schedule of Findings	33-37

CITY OF CARSON

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lyndon K. Taylor	Mayor	January 1, 2006
Bruce Damgaard	Mayor-Pro Tem	January 1, 2008
Gladys Sick	Council Member	January 1, 2008
Don Hendricks	Council Member	January 1, 2006
Susan Miller	Council Member	January 1, 2006
Joseph Riddle	Council Member	January 1, 2006
Brianne Duede	City Clerk	Indefinite
Kristina Hansen	City Treasurer	Indefinite
Richard Henninger	City Attorney	Indefinite

Laurence A. Lanphier Jr.  
Steven G. Vandenberg  
Lorraine M. Kolasinski

Certified Public Accountants  
**Lanphier, Vandenberg & Kolasinski**  
A Professional Corporation  
10842 John Galt Boulevard  
Omaha, Nebraska 68137  
(402) 592-7170  
Fax (402) 592-1595

Members  
American Institute  
of Certified Public  
Accountants

Nebraska Society of  
Certified Public  
Accountants

### Independent Auditors' Report

To The Honorable Mayor  
and Members of The City Council  
City of Carson, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Carson, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Carson's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Carson as of June 30, 2004, and the respective change in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 20 to the financial statements, during the year ended June 30, 2004, the City of Carson adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports dated August 31, 2004, on our consideration of the City of Carson's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 12 and 25 through 26 are not required parts of the basis financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Carson's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed a qualified opinion on that financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Omaha, Nebraska  
August 31, 2004

LANPHIER, VANDENBERG & KOLASINSKI, PC

<p style="text-align: center;"><b>CITY OF CARSON</b> <b>MANAGEMENT DISCUSSION AND ANALYSIS</b> For the year ending June 30, 2004</p>
----------------------------------------------------------------------------------------------------------------------------------------------

As management of the City of Carson, we offer readers of the City of Carson financial statements this narrative overview and analysis of the financial activities of the City of Carson for the fiscal year ending June 30, 2004. This section should be read in conjunction with the financial statements and the accompanying notes that follow. It should also be noted that the information contained here will provide information on both the governmental operations and the business type activities of the City.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

**Overview of Financial Statements**

This discussion and analysis are intended to serve as an introduction to the City of Carson's basic financial statements. The City of Carson's basic financial statements comprises of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basis financial statements themselves.

**Government-Wide Financial Statements**

The Statement of Activities and Net Assets reports information on all the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, service or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead of general receipts.

## **Fund Financial Statements**

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid through other funds.

### **Special Revenue**

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation long-term debt.

### **Capital Projects**

The USDA Grant is utilized to account for the resources used in the construction of a new well field.

The CDBG Grant is utilized to account for the resources used in the construction of the waste water treatment plant.

The City reports the following major proprietary funds:

The Water Fund is utilized to finance and account for the acquisition, operation, and maintenance of the City's water system that is supported by user charges.

The Sewer Fund is utilized to finance and account for the acquisition, operation, and maintenance of the City's sewer system that is supported by user charges.

The Garbage Fund is utilized to finance and account for the acquisition, operation, and maintenance of the City's garbage service that is supported by user charges.

The City also reports the following additional non-major funds:

### **Special Revenue**

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Tax Fund is used to account for the local option sales tax received.

The Benefit Levy Fund is utilized to account for the tax levy to support the City's employee's benefits.

### **Capital Projects**

The Community Center Fund is utilized to account for all resources used in the acquisition and construction of a community center building.

The Lewis/Lariviere/Tibbles Subdivision Fund is utilized to account for all resources used in the construction of the infrastructure in these subdivisions.

**Statement of Activities & Net Assets****City of Carson's Change in Net Assets**

	Governmental Activities	Business-type Activities	Total
Revenues:			
Program revenues:			
Charges for Service	1,200	188,865	190,065
Operating Grants & Contributions	77,627	0	77,627
Capital Grants & Contributions	390,292	0	390,292
General Revenues			
Property Taxes	323,080	0	323,080
Other Taxes	68,278	0	68,278
Loan Proceeds	150,000	0	150,000
Other	35,334	11,100	46,434
Total Revenues	1,045,811	199,965	1,245,776
Expenses:			
Public Safety	260,589	0	260,589
Public Works	71,754	0	71,754
Health & Social Services	0	0	0
Culture & Recreation	37,034	0	37,034
Community & Economic Development	117,331	0	117,331
General Government	105,770	0	105,770
Interest & Fiscal Charges	448,650	0	448,650
Water Utility	0	70,679	70,679
Sewer Utility	0	27,758	27,758
Garbage Utility	0	48,863	48,863
Total Expenses	1,041,128	147,300	1,188,428
Increase in net assets before transfers	4,683	52,665	57,348
Transfers	0	0	0
Increase in net assets	4,683	52,665	57,348
Net Assets - Beginning	117,514	13,890	131,404
Net Assets Ending	122,197	66,555	188,752

**Governmental Activities**

Governmental activities increased the City of Carson's net assets by \$4,683, thereby accounting for 8% of the total growth in the net assets of the City of Carson.

**Business-type Activities**

Business-type activities increased the City of Carson's net assets by \$52,665, thereby accounting for 91% of total growth in the net assets of the City of Carson.

## **Financial Analysis of the Government's Funds**

As noted earlier, the City of Carson uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

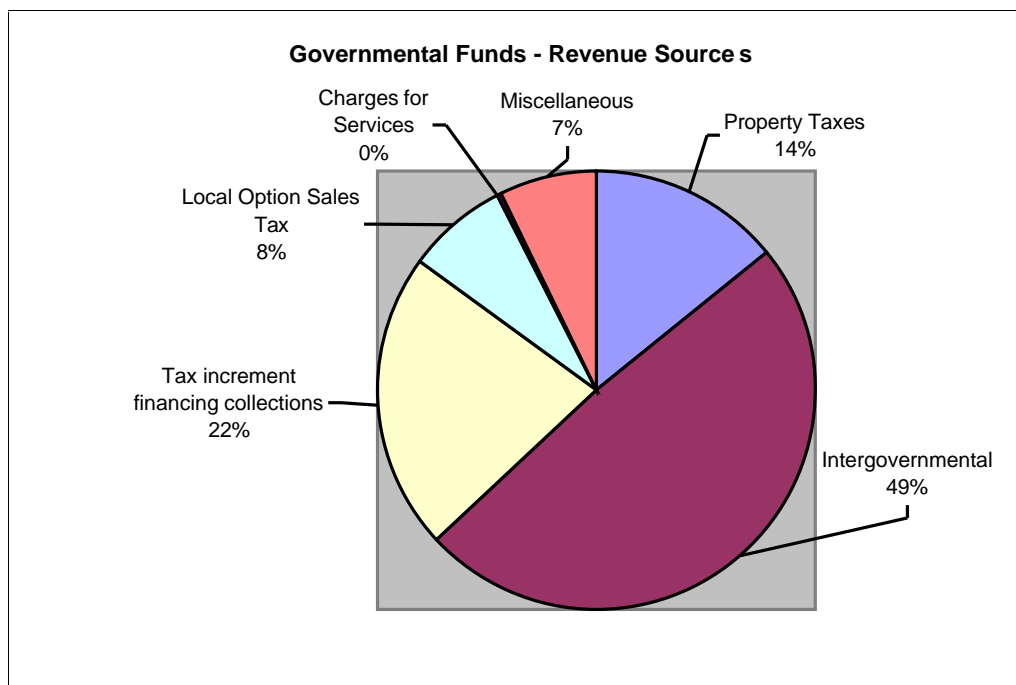
### **Governmental Funds**

The focus of the City of Carson's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Carson's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

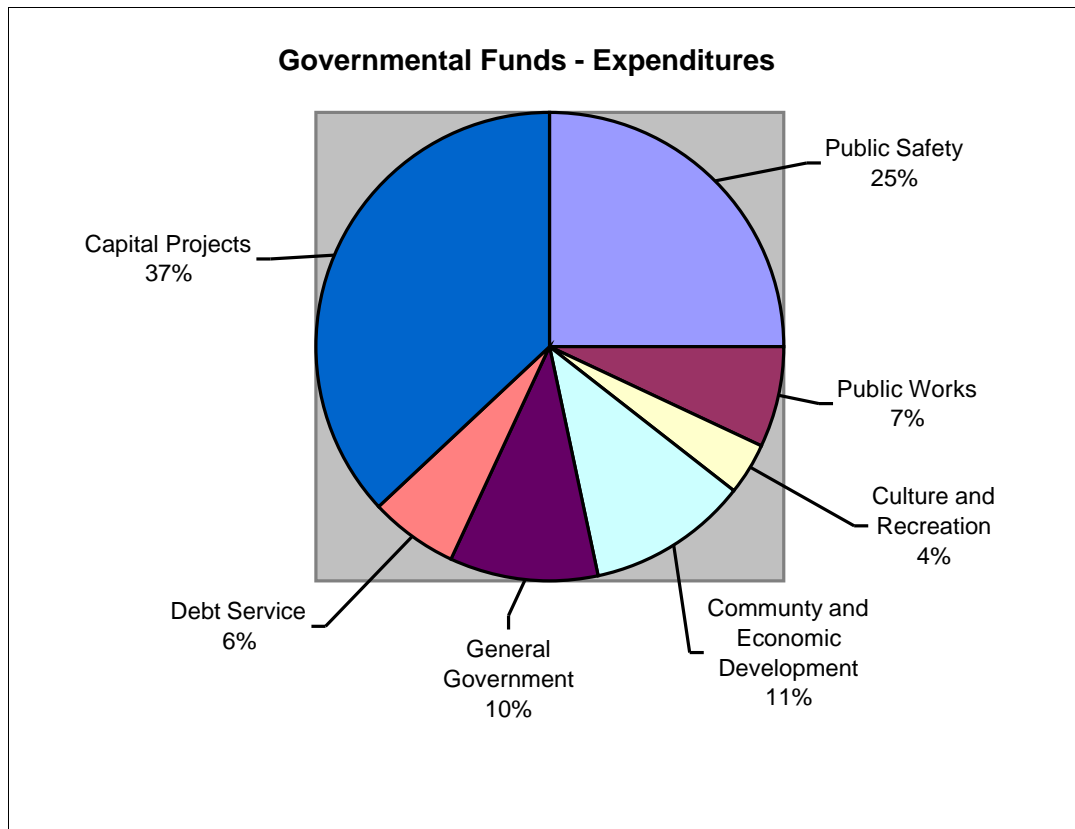
As of the end of the current fiscal year, the City of Carson's governmental funds reported combined ending fund balances of \$122,197. We cannot compare with last year since cash basis accounting was used. All major governmental funds except the general fund had a positive fund balance at the end of the year. The general fund had a deficit balance of \$63,153 as of June 30, 2004. The deficit balance was a result of incurring ambulance public safety expenses. As of the date of this report no revenue has been received from billable ambulance calls beginning April 2, 2003. We are in the process of obtaining a new EMS billing agency to resolve the revenue issue.

The Capital Projects Fund had a deficit balance of \$50,495. at June 30, 2004. The deficit balance was a result of projects costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of grants.

Revenues from the City's governmental funds totaled \$895,811. The revenues included \$127,556 for property taxes, \$195,524 from tax increment financing collections, \$68,343 from local option sales tax, \$437,476 from intergovernmental activities, including state shared revenues and state and federal grants, \$1,200 from charges of services, and \$65,712 from miscellaneous. The following graph represents the makeup of the City's governmental revenues.



Total expenditures for the governmental funds were \$1,041,128. The functions that make up these expenditures are public works (\$71,754), culture and recreation (\$37,034), public safety (\$260,589), community and economic development (\$117,331), general government (\$105,770), debt service (\$65,453), and capital projects (\$383,197). The following graph is a breakout of the governmental expenditures for the City.



### **Proprietary Funds**

The City of Carson's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water utility amounted to \$94,122, the sewer utility amounted to \$24,747, and the garbage utility amounted to (\$52,314.) The total change in net assets for all three funds was \$18,444, \$38,352, and (\$4,131), respectively. In January of 2004, the sewer rates were increased which cancelled out the sewer fund deficit. The City recognizes that the garbage fund has a deficit. Management is exploring actions to reduce the deficit.

### **Capital Assets and Debt Administration**

#### **Capital Assets**

Major capital assets events during the current fiscal year included the following:

The City was awarded a grant in the amount of \$270,000 with a matching contribution from the City of \$50,000 from USDA Rural Development. The project consisted of expanding the existing municipal well field by conducting two to four test wells to locate a new well field and to construct a minimum of one new well.

The City was awarded a CDBG Sewer/WWTP grant in the amount of \$250,000 with a matching contribution from the City of \$329,000. The project consists of improvements to the sewer lines, manholes, construction of a new Waste Water Treatment Plant, and other sewer rehabilitation improvements. The City has been approved for State Revolving Loan Fund to assist in the matching funds required to complete the project.

During the year, the City planned and expended engineering fees to explore the feasibility of the Lewis, Lariviere, and Tibbles subdivisions. The City has approved the Development Agreements for these subdivisions and they will be added to the City's Urban Renewal Plan. The total costs of the projects for the fiscal year were \$42,062.

During the fall of 2003, the City was awarded a challenge grant in the amount of \$200,000. or 20% of the total project cost towards the construction of a new community center building. The total estimated costs of the project are \$1,344,448. The City of Carson shall provide the balance of the funds to complete the project. The funds will be paid upon contractor's certification of completion statement certifying that 75% of the project is completed.

#### **Budgetary Highlights**

In May of 2004 a budget amendment was adopted. The budget amendment provided for increases or decreases in revenue estimates, appropriations, or available cash. The amendments were made for the capital project expenses and revenues, and for a fire department loan to purchase new pumper truck and utility van.

#### **Long-term debt**

At the end of the current fiscal year, the City of Carson had total bonded debt outstanding of \$827,229.

#### **City of Carson 's Outstanding Debt General Obligation and Revenue Bonds**

	Governmental Activities	Business-type Activities	Total
General Obligation Bonds	272,229	555,000	827,229
Revenue Bonds	0	-	-
Total	272,229	555,000	827,229

The City of Carson's total debt increased by \$77,229 during the fiscal year. The key factor in this increase was the issuance of \$150,000 of debt (which is included above in the Governmental Activities) for the public safety purchase of a new Fire Department pumper truck on November 10, 2003. The rest of the difference is a result of making the scheduled debt service payments for principal and interest of the outstanding general obligation bonds.

#### **Economic Factors and Next Year's Budgets and Rates**

The passing of the "Re-inventing Iowa" bill from the State of Iowa, cut state funding to cities including state consolidated payments and bank franchise tax. The bill was passed after next year's budget was certified therefore an amended budget will show the decreased receipts.

These factors, if known, were considered in doing the City of Carson 2004 Budget. If they were not known, then they will be considered with the City of Carson Amended Budget.

**Request for Information**

This financial report is designed to provide a general overview of the City of Carson's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information please feel free to contact the City of Carson, Brianne Duede, City Clerk, 127 Broadway, P O Box 128, Carson, IA 51525.

**CITY OF CARSON**  
**STATEMENT OF ACTIVITIES AND NET ASSETS**  
**CASH BASIS**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2004**

Exhibit A

		Program Receipts		Net (Disbursements) Receipts and Change in Cash Basis Net Assets		
		Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities
	Disbursements					Total
<b>FUNCTIONS/PROGRAMS</b>						
<b>GOVERNMENTAL ACTIVITIES</b>						
Public safety	\$	260,589	1,200	8,000	(251,389)	0
Public works		71,754		69,127	(2,627)	0
Culture and recreation		37,034			(37,034)	0
Community and economic development		117,331	500	18,892	(97,939)	0
General government		105,770			(105,770)	0
Debt service		65,453			(65,453)	0
Capital projects		383,197		371,400	(11,797)	0
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b>1,041,128</b>	<b>1,200</b>	<b>77,627</b>	<b>(572,009)</b>	<b>0</b>
<b>BUSINESS TYPE ACTIVITIES</b>						
Water	\$	70,679	79,586			8,907
Sewer		27,758	65,827			38,069
Garbage		48,863	43,452			(5,411)
<b>TOTAL BUSINESS TYPE ACTIVITIES</b>	<b>\$</b>	<b>147,300</b>	<b>188,865</b>	<b>0</b>	<b>0</b>	<b>41,565</b>
<b>TOTAL</b>	<b>\$</b>	<b>1,188,428</b>	<b>190,065</b>	<b>77,627</b>	<b>(572,009)</b>	<b>41,565</b>
<b>GENERAL RECEIPTS</b>						
Property tax levied for						
General purposes	\$				71,984	0
Tax incremental financing					195,524	0
Debt service					55,572	0
Local option sales tax					68,278	0
Grants and contributions not restricted					0	0
Unrestricted interest on investments					1,790	26
Loan proceeds					150,000	0
Miscellaneous					33,544	11,074
Transfers					0	0
<b>TOTAL GENERAL RECEIPTS AND TRANSFERS</b>	<b>\$</b>				<b>576,692</b>	<b>11,100</b>
<b>CHANGE IN CASH BASIS NET ASSETS</b>	<b>\$</b>				<b>4,683</b>	<b>52,665</b>
<b>CASH BASIS NET ASSETS BEGINNING OF YEAR</b>	<b>\$</b>				<b>117,514</b>	<b>13,890</b>
<b>CASH BASIS NET ASSETS END OF YEAR</b>	<b>\$</b>				<b>122,197</b>	<b>66,555</b>
<b>CASH BASIS NET ASSETS</b>						
RESTRICTED						
Streets	\$				55,719	55,719
Urban renewal purposes					172,516	172,516
Debt service					97	97
Other purposes					8,053	8,053
UNRESTRICTED					(114,188)	66,555
<b>TOTAL CASH BASIS NET ASSETS</b>	<b>\$</b>				<b>122,197</b>	<b>66,555</b>

See Notes to Financial Statements

**CITY OF CARSON**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES**  
**GOVERNMENTAL FUNDS**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2004**

Exhibit B

	SPECIAL REVENUE		CAPITAL PROJECTS			NONMAJOR FUNDS	TOTAL
	GENERAL	RENEWAL TAX URBAN INCREMENT	DEBT SERVICE	USDA GRANT	CDBG GRANT WWTP		
<b>RECEIPTS</b>							
Property tax	\$ 52,404	0	55,572	0	0	19,580	127,556
Tax increment financing collections	0	195,524	0	0	0	0	195,524
Other city tax	65	0	0	0	0	68,278	68,343
Licenses and permits	1,816	0	0	0	0	0	1,816
Use of money and property	1,740	0	0	46	0	3	1,789
Intergovernmental	17,964	0	0	269,785	94,091	55,636	437,476
Charges for services	1,200	0	0	0	0	0	1,200
Miscellaneous	35,682	18,892	0	9	0	7,524	62,107
<b>TOTAL RECEIPTS</b>	<b>\$ 110,871</b>	<b>214,416</b>	<b>55,572</b>	<b>269,840</b>	<b>94,091</b>	<b>151,021</b>	<b>895,811</b>
<b>DISBURSEMENTS</b>							
Operating							
Public safety	\$ 255,337	0	0	0	0	5,252	260,589
Public works	3,350	0	0	0	0	68,404	71,754
Culture and recreation	36,299	0	0	0	0	735	37,034
Community and economic development	0	117,331	0	0	0	0	117,331
General government	100,200	0	0	0	0	5,570	105,770
Debt service	0	0	65,453	0	0	0	65,453
Capital projects	0	0	0	232,091	102,754	48,352	383,197
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 395,186</b>	<b>117,331</b>	<b>65,453</b>	<b>232,091</b>	<b>102,754</b>	<b>128,313</b>	<b>1,041,128</b>
<b>EXCESS OF RECEIPTS OVER DISBURSEMENTS</b>	<b>\$ (284,315)</b>	<b>97,085</b>	<b>(9,881)</b>	<b>37,749</b>	<b>(8,663)</b>	<b>22,708</b>	<b>(145,317)</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
Loan proceeds	\$ 150,000	0	0	0	0	0	150,000
Operating transfers in	68,278	0	9,978	0	0	0	78,256
Operating transfers out	(9,978)	0	0	0	0	(68,278)	(78,256)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ 208,300</b>	<b>0</b>	<b>9,978</b>	<b>0</b>	<b>0</b>	<b>(68,278)</b>	<b>150,000</b>
<b>NET CHANGE IN CASH BALANCES</b>	<b>\$ (76,015)</b>	<b>97,085</b>	<b>97</b>	<b>37,749</b>	<b>(8,663)</b>	<b>(45,570)</b>	<b>4,683</b>
<b>CASH BALANCE BEGINNING OF YEAR</b>	<b>12,862</b>	<b>75,431</b>	<b>0</b>	<b>(38,289)</b>	<b>(1,007)</b>	<b>68,517</b>	<b>117,514</b>
<b>CASH BALANCE END OF YEAR</b>	<b>\$ (63,153)</b>	<b>172,516</b>	<b>97</b>	<b>(540)</b>	<b>(9,670)</b>	<b>22,947</b>	<b>122,197</b>
<b>CASH BASIS FUND BALANCES</b>							
<b>RESERVED</b>							
Debt service	\$ 0	0	97	0	0	0	97
<b>UNRESERVED</b>							
General fund	(63,153)	0	0	0	0	0	(63,153)
Special revenue funds	0	172,516	0	0	0	63,772	236,288
Capital projects fund	0	0	0	(540)	(9,670)	(40,825)	(51,035)
<b>TOTAL CASH BASIS FUND BALANCES</b>	<b>\$ (63,153)</b>	<b>172,516</b>	<b>97</b>	<b>(540)</b>	<b>(9,670)</b>	<b>22,947</b>	<b>122,197</b>

See Notes to Financial Statements

CITY OF CARSON  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

Exhibit C

ENTERPRISE FUNDS				
	WATER	SEWER	GARBAGE	TOTAL
<b>OPERATING RECEIPTS</b>				
Use of money and property	\$ 26	0	0	26
Charges for Services	79,586	65,827	43,452	188,865
Miscellaneous	0	0	0	0
<b>TOTAL OPERATING RECEIPTS</b>	<b>\$ 79,612</b>	<b>65,827</b>	<b>43,452</b>	<b>188,891</b>
<b>OPERATING DISBURSEMENTS</b>				
Public works	\$ 70,679	27,758	48,863	147,300
<b>TOTAL OPERATING DISBURSEMENTS</b>	<b>\$ 70,679</b>	<b>27,758</b>	<b>48,863</b>	<b>147,300</b>
<b>EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS</b>	<b>\$ 8,933</b>	<b>38,069</b>	<b>(5,411)</b>	<b>41,591</b>
<b>NON OPERATING RECEIPTS</b>				
Miscellaneous	\$ 9,511	283	1,280	11,074
<b>TOTAL NON OPERATING RECEIPTS</b>	<b>\$ 9,511</b>	<b>283</b>	<b>1,280</b>	<b>11,074</b>
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS</b>	<b>\$ 18,444</b>	<b>38,352</b>	<b>(4,131)</b>	<b>52,665</b>
<b>OPERATING TRANSFERS OUT</b>	<b>\$ 0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>NET CHANGE IN CASH BALANCES</b>	<b>\$ 18,444</b>	<b>38,352</b>	<b>(4,131)</b>	<b>52,665</b>
<b>CASH BALANCE BEGINNING OF YEAR</b>	<b>\$ 75,678</b>	<b>(13,605)</b>	<b>(48,183)</b>	<b>13,890</b>
<b>CASH BALANCE END OF YEAR</b>	<b>\$ 94,122</b>	<b>24,747</b>	<b>(52,314)</b>	<b>66,555</b>
<b>CASH BASIS FUND BALANCES</b>				
Reserved	\$ 0	0	0	0
Unreserved	94,122	24,747	(52,314)	66,555
<b>TOTAL CASH BASIS FUND BALANCES</b>	<b>\$ 94,122</b>	<b>24,747</b>	<b>(52,314)</b>	<b>66,555</b>

See Notes to Financial Statements

CITY OF CARSON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

NOTE 1      Summary Of Significant Accounting Policies

The City of Carson is a political subdivision of the State of Iowa located in Pottawattamie County. It was first incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and garbage utilities for its citizens.

Reporting Entity

For financial reporting purposes, City Of Carson has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing board, and (1) the ability of the City to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following associations: Carson Business Club, Southwest Iowa Clerk's Association, Iowa Municipal Finance Association, Iowa League of Cities, Western Iowa Development Association, MAPA, SWIPCO, Iowa Rural Water Association, Iowa Association of Municipal Utilities, American Water Works Association, and International Clerk's Association.

Basis of Presentation

Government-wide Financial Statements

The Statement of Activities and Net Assets reports information on all the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

CITY OF CARSON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, service or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead of general receipts.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid through other funds.

Special Revenue

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation long-term debt.

Capital Projects

The USDA Grant is utilized to account for the resources used in the construction of a new well field.

The CDBG Grant is utilized to account for the resources used in the construction of the waste water treatment plant.

CITY OF CARSON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

The City reports the following major proprietary funds:

The Water Fund is utilized to finance and account for the acquisition, operation, and maintenance of the City's water system that is supported by user charges.

The Sewer Fund is utilized to finance and account for the acquisition, operation, and maintenance of the City's sewer system that is supported by user charges.

The Garbage Fund is utilized to finance and account for the acquisition, operation, and maintenance of the City's garbage service that is supported by user charges.

The City also reports the following additional non-major funds:

Special Revenue

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Tax Fund is used to account for the local option sales tax received.

The Benefit Levy Fund is utilized to account for the tax levy to support the City's employee's benefits.

Capital Projects

The Community Center Fund is utilized to account for all resources used in the acquisition and construction of a community center building.

The Lewis/Lavivere/Tibbles Subdivision Fund is utilized to account for all resources used in the construction of the infrastructure in these subdivisions.

Measurement Focus and Basis of Accounting

The City of Carson maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

CITY OF CARSON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the culture and recreation, and debt service functions.

NOTE 2

Deposits and Investments:

The City's deposits at June 30, 2004, were entirely covered by federal depository insurance or by The State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all category 1, which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City had one certificate of deposit that was held within the State of Iowa in the City's name for \$1,000. during the current fiscal year.

NOTE 3

General Obligation Notes Payable

Annual debt service requirements to maturity for general obligation and urban renewal tax increment financing revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Urban Renewal Tax Increment Financing (TIF) Revenue Notes		Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest
2005	50,000	23,283	30,000	13,662	80,000	36,945
2006	55,000	21,829	35,000	12,463	90,000	34,291
2007	55,000	20,124	35,000	10,992	90,000	31,117
2008	55,000	18,168	35,000	9,453	90,000	27,620
2009	60,000	15,895	40,000	7,860	100,000	23,755
2010	60,000	13,194	40,000	5,980	100,000	19,174
2011	60,000	10,280	40,000	4,040	100,000	14,320
2012	65,000	7,198	40,000	2,040	105,000	9,238
2013	65,000	3,766	0	0	65,000	3,766
2014	7,229	247	0	0	7,229	248
Total	\$ 532,229	133,984	295,000	66,490	827,229	200,474

CITY OF CARSON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

The Code of Iowa requires that principal and interest on general obligation notes be paid from the debt service fund.

The urban renewal tax increment financing revenue notes were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project including street improvements for the Wilbur Subdivision. The notes are payable solely from the income and proceeds of the Special Revenue Fund, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue notes shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The notes are not a general obligation of the City; however, the debt is subject to the constitutional debt limitation of the City.

NOTE 4      Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002, were \$7,518, \$6,322, and \$5,893., respectively, equal to the required contributions for the years. Covered payrolls for the years ended June 30, 2004, 2003 and 2002 were \$130,739., \$109,940., and \$102,488, respectively and the total payrolls for the years ended June 30, 2004, 2003 and 2002 were \$134,237., \$113,026., and \$120,400., respectively.

NOTE 5      Compensated Absences

City employees accumulate a limited amount of earned but unused vacation for payment upon termination, retirement or death and sick leave hours for subsequent use during employment. As of November 12, 2001, full-time employees may elect compensatory time in lieu of overtime pay. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, sick leave termination, and compensatory time payments payable to employees at June 30, 2004, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 3,830.
Sick leave	2,908.
Compensatory time	<u>1,090.</u>
	\$ <u>7,828.</u>

This liability has been computed based on rates of pay as of June 30, 2004.

CITY OF CARSON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

NOTE 6      Property Taxes

Property taxes attach as an enforceable lien on property as of August 1. Taxes are levied on July 1, and payable in two installments on October 1 and April 1. The County bills and collects property taxes and remits them to the City monthly.

NOTE 7      Interfund Transfers

The following operating transfers were made to move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources: \$9,978. from the General Fund to Debt Service; and \$68,278. from the Special Revenue, Local Option Tax Fund to the General Fund.

NOTE 8      Related Party Transactions

The City had business transactions totaling \$3,440. between the City and City officials during the year ended June 30, 2004.

NOTE 9      Risk Management

The City of Carson is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 10     Deficit Fund Balances

The General Fund had a deficit balance of \$63,153 at June 30, 2004. The deficit balance was a result of not receiving ambulance billing revenues. The ambulance has been in service since April 2, 2003 and to date no revenue has been received to offset the ambulance disbursements. The City is currently seeking a new EMS Medical billing agency in order to begin collection of ambulance calls that have occurred since April 2, 2003. The City Clerk and City Treasurer salaries are now paid from the proprietary funds rather than the general fund. This was done to reduce the deficit in the general fund balance. The City has also lost significant general fund revenues in the past year due to State of Iowa budget cuts.

The Capital Projects Fund had a deficit balance of \$50,495. at June 30, 2004. The deficit balance was a result of projects costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of grants.

NOTE 11     Iowa West Foundation Grants  
City Entrance Signs

On December 15, 2001, the City was awarded a matching grant in the amount of \$14,250. or 50% of costs from the Iowa West Foundation toward the erection of three new city entrance signs. The total costs of the project were \$26,983. The City completed, closed the project, and \$13,491., the matching portion of the grant was received in August 2003.

CITY OF CARSON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

Emergency Early Warning Siren

In the fall of 2002, the City was awarded a matching grant in the amount of \$13,000 or 51% of costs for an emergency early warning siren. The total costs of the project were \$18,906. The City completed, closed the project and \$9,642., the matching portion of the grant was received in November 2003.

911 VHF Repeater System

In the fall of 2002, the City was awarded a matching grant in the amount of \$9,250. or 47% of costs of a 911 VHF Repeater system. The total costs of the project were \$18,972. The City completed, closed the project and \$9,250., the matching portion of the grant was received in October 2003.

Fire Department Grants

During the fiscal year, the Carson Volunteer Fire Department received grants totaling \$8,000. from the Iowa West Foundation for miscellaneous fire equipment. The total cost of this equipment was \$12,796.

Community Center

During the fall of 2003, the City was awarded a challenge grant in the amount of \$200,000. or 20% of the total project cost towards the construction of a new community center building. The total estimated costs of the project are \$1,344,448. The City of Carson shall provide the balance of the funds to complete the project. The funds will be paid upon contractor's certification of completion statement certifying that 75% of the project is completed.

Park Improvement

During the spring of 2004, the City was awarded a matching grant in the amount of \$4,463 or 50% of costs for improvements to the stairs in the city park. The estimated total cost of the project is \$8,925. There were no disbursements made or monies received on this project during the fiscal year. The grant will expire June 15, 2005.

NOTE 12

Capital Project - USDA Grant/Test Wells Grant

The City was awarded a grant in the amount of \$270,000. with a matching contribution from the City of \$50,000 from USDA Rural Development. The project consisted of expanding the existing municipal well field by conducting two to four test wells to locate a new well field and to construct a minimum of one new well, and as many as three new wells. The purpose of the project is to create a new water supply for the City to counter the affects of recent drought. The total costs of the project were \$433,228. The City completed, closed the project and \$269,785., the matching portion of the grant was received during the fiscal year.

CITY OF CARSON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

- NOTE 13      Capital Project - CDBG Grant/Waste Water Treatment Plant  
On May 28, 2003, the City was awarded a grant in the amount of \$250,000. with a matching contribution from the City of \$329,000. The City has total expenditures of \$102,754. through June 30, 2004. The City has received \$94,091. of the grant during the fiscal year. The grant has been extended to expire on August 31, 2005.
- NOTE 14      Capital Projects – Lewis, Laviviere, and Tibbles Subdivisions  
During the year, the City planned and expended engineering fees to explore the feasibility of these subdivisions. The City has approved the Development Agreements for these subdivisions and they will be added to the Urban Renewal Plan. The total costs of the projects for the fiscal year were \$42,062.
- NOTE 15      Water Tower Lease Agreement  
On March 29, 2002, the City entered in to a lease agreement with American Relay Company, LLC to lease space on the City's water tower in order to install, maintain, and operate radio communication equipment, antennas and appurtenances. The initial term shall be for five years at an annual rent of \$1,077. to be paid in through service credits for two Stratocruiser connections. This agreement shall automatically be extended for four additional five year terms each increased to \$1,200, \$1,300, \$1,400 and \$1,500 per term.
- NOTE 16      Development Agreement  
On April 2, 2002, the City entered into a development agreement with Jonathan Taylor D/B/A J.E. Larson Construction for the demolition, removal and clearance of blighted property owned by the City. This property is located in the North 39 feet of Lot 15 and the South 10 feet 6 inches of Lot 16, Block 12 in the City of Carson. The contractor agrees to construct improvements at a cost of not to exceed \$110,000. nor be less than \$89,300. The improvements are to be completed within 12 months of the start date. The certificate of completion was issued in September of 2004.
- NOTE 17      Development Agreement  
On May 3, 2002, the City entered into a development agreement with Jonathan Taylor D/B/A J.E. Larson Construction for the demolition, removal and clearance with blighted property owned by the City. This property is located in the South 21 feet of Lot 15 and the North 39 feet of Lot 14, Block 12 in the City of Carson. The contractor agrees to construct improvements at a cost of not to exceed \$110,000. nor be less than \$89,300. The improvements are to be completed within 12 months of the start date. The certificate of completion was issued in September of 2004.

CITY OF CARSON  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

NOTE 18      Development Agreement

On February 12, 2003, the City entered into a development agreement with Tibbles Farms, Inc. for the annexation of certain property to be included in the City's Urban Renewal Area as a Subdivision. This agreement includes the purchase of approximately 24 acres of Wildlife Preserve Property by the City and the City agrees to extend the water main and sewer main along Highway 92 so as to serve the Subdivision and Wildlife Preserve Property.

NOTE 19      Subsequent Events

Law Enforcement Service Contract

The City renewed its Law Enforcement Services Contract as of July 1, 2004. The contract is payable in four installments of \$2,923. on July 1, 2004, October 1, 2004, January 1, 2005, and April 1, 2005.

Development Agreement

On August 9, 2004, the City approved the Agreement for Private Development of the Lewis and Lariviere subdivisions.

Construction Contract

On August 9, 2004, the City approved a construction contract with MFT Construction, Inc. of Council Bluffs, IA in the amount of \$198,476. for the construction of certain water main and sanitary sewer improvements.

Sewer Revenue Capital Loan Notes

On August 9, 2004, the City resolved to authorize a loan and disbursement agreement for the issuance of \$750,000. sewer revenue capital loan notes.

Municipal Lease

On August 9, 2004, the City approved the bid and a five year lease payment schedule with Macedonia Implement for the lease of a John Deere tractor. The lease will be paid \$5902. per year with the first lease payment made in advance.

NOTE 20      Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

The government-wide financial statement reports the City's governmental and business type activities.

CITY OF CARSON  
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES  
IN BALANCES – BUDGET AND ACTUAL - CASH BASIS  
ALL GOVERNMENTAL AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2004

	GOVERNMENTAL FUNDS ACTUAL	PROPRIETARY FUNDS ACTUAL	TOTAL	BUDGETED AMOUNTS		FINAL TO TOTAL VARIANCE
				ORIGINAL	FINAL	
<b>RECEIPTS</b>						
Property tax	\$ 127,556	0	127,556	120,533	120,533	7,023
Tax increment financing collections	195,524	0	195,524	252,916	205,000	(9,476)
Other city tax	68,343	0	68,343	68,386	70,004	(1,661)
Licenses and permits	1,816	0	1,816	1,225	1,950	(134)
Use of money and property	1,789	26	1,815	2,500	2,675	(860)
Intergovernmental	437,476	0	437,476	109,668	647,817	(210,341)
Charges for services	1,200	188,865	190,065	186,190	215,100	(25,035)
Miscellaneous	62,107	11,074	73,181	1,900	9,100	64,081
<b>TOTAL RECEIPTS</b>	<b>\$ 895,811</b>	<b>199,965</b>	<b>1,095,776</b>	<b>743,318</b>	<b>1,272,179</b>	<b>(176,403)</b>
<b>DISBURSEMENTS</b>						
Public safety	\$ 260,589	0	260,589	109,143	286,929	26,340
Public works	71,754	0	71,754	59,340	73,875	2,121
Culture and recreation	37,034	0	37,034	24,663	35,522	(1,512)
Community and economic development	117,331	0	117,331	205,130	205,043	87,712
General government	105,770	0	105,770	101,701	121,727	15,957
Debt service	65,453	0	65,453	100,564	55,476	(9,977)
Capital projects	383,197	0	383,197	0	473,700	90,503
Business type activities	0	147,300	147,300	147,654	160,851	13,551
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 1,041,128</b>	<b>147,300</b>	<b>1,188,428</b>	<b>748,195</b>	<b>1,413,123</b>	<b>224,695</b>
<b>EXCESS OF RECEIPTS OVER DISBURSEMENTS</b>	<b>\$ (145,317)</b>	<b>52,665</b>	<b>(92,652)</b>	<b>(4,877)</b>	<b>(140,944)</b>	<b>(48,292)</b>
<b>OTHER FINANCING SOURCES, NET</b>	<b>\$ 150,000</b>	<b>0</b>	<b>150,000</b>	<b>0</b>	<b>150,000</b>	<b>0</b>
<b>EXCESS OF RECEIPTS AND OTHER FINANCING SOURCES OVER DISBURSEMENTS AND OTHER FINANCING USES</b>	<b>\$ 4,683</b>	<b>52,665</b>	<b>57,348</b>	<b>(4,877)</b>	<b>9,056</b>	<b>(48,292)</b>
<b>BALANCE BEGINNING OF YEAR</b>	<b>\$ 117,514</b>	<b>13,890</b>	<b>131,404</b>	<b>296,059</b>	<b>296,059</b>	<b>164,655</b>
<b>BALANCE END OF YEAR</b>	<b>\$ 122,197</b>	<b>66,555</b>	<b>188,752</b>	<b>291,182</b>	<b>305,115</b>	<b>116,363</b>

See Accompanying Independent Auditor's Report

CITY OF CARSON  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY REPORTING  
June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$664,928. The budget amendment is reflected in the final budget amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the culture and recreation, and debt service functions.

CITY OF CARSON  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

Schedule 1

	SPECIAL REVENUE			CAPITAL PROJECTS		
	ROAD USE TAX	LOCAL OPTION TAX	EMPLOYEE BENEFIT LEVY	COMMUNITY CENTER	LEWIS/ LAVIVIERE/ TIBBLES	TOTAL
<b>RECEIPTS</b>						
Property tax	\$ 0	0	19,580	0	0	19,580
Other city tax	0	68,278	0	0	0	68,278
Use of money and property	0	0	0	3	0	3
Intergovernmental	55,636	0	0	0	0	55,636
Miscellaneous	0	0	0	7,524	0	7,524
<b>TOTAL RECEIPTS</b>	<b>\$ 55,636</b>	<b>68,278</b>	<b>19,580</b>	<b>7,527</b>	<b>0</b>	<b>151,021</b>
<b>DISBURSEMENTS</b>						
Public safety	\$ 0	0	5,252	0	0	5,252
Public works	66,064	0	2,340	0	0	68,404
Culture and recreation	0	0	735	0	0	735
General government	0	0	5,570	0	0	5,570
Capital projects	0	0	0	6,290	42,062	48,352
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 66,064</b>	<b>0</b>	<b>13,897</b>	<b>6,290</b>	<b>42,062</b>	<b>128,313</b>
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS</b>	<b>\$ (10,428)</b>	<b>68,278</b>	<b>5,683</b>	<b>1,237</b>	<b>(42,062)</b>	<b>22,708</b>
<b>OPERATING TRANSFERS IN (OUT)</b>	<b>\$ 0</b>	<b>(68,278)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(68,278)</b>
<b>NET CHANGE IN CASH BALANCES</b>	<b>\$ (10,428)</b>	<b>0</b>	<b>5,683</b>	<b>1,237</b>	<b>(42,062)</b>	<b>(45,570)</b>
<b>CASH BALANCE BEGINNING OF YEAR</b>	<b>\$ 66,147</b>	<b>0</b>	<b>2,370</b>	<b>0</b>	<b>0</b>	<b>68,517</b>
<b>CASH BALANCE END OF YEAR</b>	<b>\$ 55,719</b>	<b>0</b>	<b>8,053</b>	<b>1,237</b>	<b>(42,062)</b>	<b>22,947</b>
<b>CASH BASIS FUND BALANCES</b>						
Special revenue funds	\$ 55,719	0	8,053	0	0	63,772
Capital projects fund	0	0	0	1,237	(42,062)	(40,825)
<b>TOTAL CASH BASIS FUND BALANCES</b>	<b>\$ 55,719</b>	<b>0</b>	<b>8,053</b>	<b>1,237</b>	<b>(42,062)</b>	<b>22,947</b>

See Accompanying Independent Auditor's Report

CITY OF CARSON  
SCHEDULE OF INDEBTEDNESS  
FOR THE YEAR ENDED JUNE 30, 2004

Schedule 2

OBLIGATION	DATE OF ISSUE	INTEREST RATES	AMOUNT ORIGINALLY ISSUED	BALANCE BEG OF YEAR	ISSUED DURING YEAR	REDEEMED DURING YEAR	BALANCE END OF YEAR	INTEREST PAID	INTEREST DUE AND UNPAID
<b>GENERAL OBLIGATION NOTES</b>									
WATER	Feb 1, 1998	4.10% to 5.25%	\$ 380,000	285,000	0	25,000	260,000	14,078	0
WILBUR/TIF SUBDIVISION	Nov 1, 2001	3.50% to 5.10%	\$ 355,000	325,000	0	30,000	295,000	14,787	0
AMBULANCE	Sept 1, 2002	3.00% to 4.80%	\$ 140,000	140,000	0	10,000	130,000	5,798	0
FIRE TRUCK	Nov 10, 2003	3.25% to 6.50%	\$ 150,000	0	150,000	7,771	142,229	2,207	0
				750,000	150,000	72,771	827,229	36,870	0

See Accompanying Independent Auditor's Report

CITY OF CARSON  
BOND AND NOTE MATURITIES  
JUNE 30, 2004

Schedule 3

GENERAL OBLIGATION NOTES				
YEAR END JUNE 30	WATER		URBAN RENEWAL	
	Issued Feb 1, 1998 Callable June 1, 2007		Issued Nov 1, 2001 Callable June 1, 2009	
	INTEREST		INTEREST	
	RATE	AMOUNT	RATE	AMOUNT
2005	4.65%	25,000	4.00%	30,000
2006	4.70%	25,000	4.20%	35,000
2007	4.75%	25,000	4.40%	35,000
2008	4.85%	25,000	4.55%	35,000
2009	4.95%	30,000	4.70%	40,000
2010	5.05%	30,000	4.85%	40,000
2011	5.15%	30,000	5.00%	40,000
2012	5.20%	35,000	5.10%	40,000
2013	5.25%	35,000		
2014				
<b>TOTAL</b>		<b>\$ 260,000</b>		<b>\$ 295,000</b>

GENERAL OBLIGATION NOTES				
YEAR END JUNE 30	AMBULANCE		FIRE TRUCK	
	Issued Sept 1, 2002 Callable June 1, 2010		Issued Nov 10, 2003 Callable June 1, 2011	
	INTEREST		INTEREST	
	RATE	AMOUNT	RATE	AMOUNT
2005	3.30%	10,000	3.36%	15,000
2006	3.60%	15,000	4.15%	15,000
2007	3.90%	15,000	4.75%	15,000
2008	4.10%	15,000	5.15%	15,000
2009	4.30%	15,000	5.55%	15,000
2010	4.45%	15,000	5.90%	15,000
2011	4.60%	15,000	6.10%	15,000
2012	4.70%	15,000	6.25%	15,000
2013	4.80%	15,000	6.50%	15,000
2014			6.50%	7,229
<b>TOTAL</b>		<b>\$ 130,000</b>		<b>\$ 142,229</b>
				<b>\$ 827,229</b>

See Accompanying Independent Auditor's Report

CITY OF CARSON  
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION  
ALL GOVERNMENTAL FUNDS  
FOR THE LAST TWO YEARS

Schedule 4

	<b>2004</b>	<b>2003</b>
<b>RECEIPTS</b>		
Property tax	\$ 127,556	122,576
Tax increment financing collections	195,524	166,400
Other city tax	68,343	64,840
Licenses and permits	1,816	1,845
Use of money and property	1,789	4,213
Intergovernmental	437,476	71,697
Charges for services	1,200	2,400
Miscellaneous	62,107	33,117
<b>TOTAL RECEIPTS</b>	<b>\$ 895,811</b>	<b>467,088</b>
<b>DISBURSEMENTS</b>		
Operating		
Public safety	\$ 260,589	245,720
Public works	71,754	134,547
Culture and recreation	37,034	75,180
Community and economic development	117,331	46,138
General government	105,770	110,202
Debt service	65,453	50,516
Capital projects	383,197	123,786
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 1,041,128</b>	<b>786,089</b>

Laurence A. Lanphier Jr.  
Steven G. Vandenberg  
Lorraine M. Kolasinski

Certified Public Accountants  
**Lanphier, Vandenberg & Kolasinski**  
A Professional Corporation  
10842 John Galt Boulevard  
Omaha, Nebraska 68137  
(402) 592-7170  
Fax (402) 592-1595

Members  
American Institute  
of Certified Public  
Accountants

Nebraska Society of  
Certified Public  
Accountants

Independent Auditors' Report On Compliance  
and on Internal Control over Financial Reporting

To The Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the City of Carson, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 31, 2004. Our report expresses an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Carson's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Carson's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Carson's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in the amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information of and use of the officials, employees and citizens of the City of Carson and other parties to whom the City of Carson may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Carson during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

August 31, 2004

LANPHIER, VANDENBERG & KOLASINSKI, PC

CITY OF CARSON  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2004

**Part I: Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**Part II: Findings Related to the Financial Statements**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

**II-A-04     Segregation of Duties**

One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that significantly all transactions and reports, cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation:

We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response

We are continuing to implement procedures to maximize control.

Conclusion

Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports. The City Treasurer is utilized to review accounts payable, accounts receivable and payroll functions on a weekly basis.

This was a prior year reportable condition.

CITY OF CARSON  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2004

II-B-04      Ambulance Billings

On September 11, 2003, the City entered into a contract with Unicorn Medical Billing for Ambulance billing and collection services. As of the date of this report, no revenue has been received from billable ambulance calls beginning April 2, 2003.

Recommendation

As insurance carriers and Medicare have deadlines on which claims can be presented for payment, we recommend the City should enforce this contract or another billing company should be hired to submit billings for ambulance calls in a timely manner and collections for the prior year's billings should be reconciled to the actual calls made in an attempt to collect as much as possible for the services rendered.

Response

The City is seeking to resolve this issue.

Conclusion

Response acknowledged.

**Part III: Other Findings Related to Statutory Reporting**

III-A-04      Official Depositories

A resolution naming official depositories and maximum deposit amounts has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

III-B-04      Certified Budget

Disbursements during the year ended June 30, 2004, exceeded the amounts budgeted in the culture and recreation, and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation

The budget should have been amended in sufficient amounts in accordance with Chapter 384-18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response

We will review all disbursements periodically and the budget will be amended, if applicable.

Conclusion

Response accepted.

CITY OF CARSON  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2004

III-C-04    Questionable Disbursements

No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-04    Travel Expense

No disbursements of City money for travel expenses of spouses of City Officials or employees were noted.

III-E-04    Business Transactions

Business transactions between the City and City officials were noted as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
James Taylor, Son of Mayor	Website Design/Development	\$2,495.
James Taylor, Son of Mayor	Website Maintenance/ Computer repairs and services	\$ 945.

In accordance with Chapter 362-5(10) of the Code of Iowa, the transaction for the website design does not appear to represent a conflict of interest since it was entered into through competitive bidding. The website and computer maintenance does not appear to represent a conflict of interest since it was less than \$2,500.

III-F-04    Bond Coverage

Surety bond coverage of City Officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-G-04    Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

III-H-04    Deposits and Investments

The City has adopted a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

It was noted that the former City Clerk's name and the former Mayor Pro tem have not been removed from the authorized signatures on the Money Market and CD accounts at US Bank.

Recommendation

The City should review and update all authorized signatures on the City's accounts.

CITY OF CARSON  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2004

Response

The bank has been contacted and we are in the process of having all current authorized signatures updated on the City accounts.

Conclusion

Response accepted.

III-I-04     Utility Reconciliation

The City does not reconcile the cash postings from the utility software to the cash postings of the general ledger.

Recommendation

At the end of each month, the City should reconcile the general ledger for utility monies collected during the current month and for the fiscal year to the cash postings in the utility software in a formal procedure.

Response

The procedures recommended are now in place and are being implemented for reconciliation.

Conclusion

Response accepted.

III-J-04     Disbursements

We noted that accounts payable invoices did not show evidence of council review.

Recommendation

The Mayor or a Council member should review all paid invoices and evidence of that review should be placed on the invoice.

Response

All invoices are now reviewed and signed off by the Mayor. Council may also review the invoices in the future and sign off on them as well.

Conclusion

Response accepted.

CITY OF CARSON  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2004

III-K-04    Financial Condition

The General Fund, Garbage Fund and the Capital Projects Fund have deficit balances at June 30, 2004 of \$63,153, \$52,314, and \$50,494, respectively.

Recommendation

The City should investigate alternatives to eliminate this deficit in order to return these fund balances to a sound financial position.

Response

We are aware of the General Fund deficit and are working to reverse. We are considering alternatives to reverse the Garbage Fund deficit. We will be receiving additional grant money on the CDBG Grant Capital Project and the Lewis, Laviviere and Tibbles Subdivisions Capital Projects are initial expenses for future urban renewal areas.

Conclusion

Response accepted.